Exiting your business: A guide to information gathering and analysis

Alongside the decision to start a business, the decision to exit is among the most consequential that ownership and management will ever make. Whether through a sale, merger, divestment, public offering, or winding the company down, an exit demands careful consideration from decision makers so that the final form of the deal satisfies the needs of key stakeholders. To do so, stakeholders must ensure they have a solid grasp of each component of the buying process from preparation to valuation to negotiation.

This guide is the first in a series meant to help key stakeholders navigate the steps required to exit a business and covers a critical initial step in the process: information gathering and analysis.

Role of the board of directors

This guide can help directors—and any other individuals responsible for governance within an organization—fulfil their professional obligations during a potential exit by helping gather and analyze critical information that will be used to make the decision to exit, determine the possible approach to exiting, and guide the potential search for buyers and/or partners.

Though the specific duties of a board of directors at a privately held company can vary depending on the needs of ownership, their various responsibilities generally include providing strategic direction, establishing and overseeing a governance system, protecting the organization's assets and shareholders' investment, and to monitor and control. Privately held companies also have a wide range of board types depending on their unique circumstances and history. Family-owned businesses with a strong founder presence may operate with a board of one, whereas major private conglomerates with multiple stakeholders may have a board that closely mirrors those of publicly traded companies.

Finding the right information

This guide is meant to elicit responses that will provide the information necessary to make informed decisions about exiting the business and to develop a comprehensive strategy for doing so. It will also help to develop a readiness assessment and identify areas for improvement. Together, the board and management can use the responses to identify strengths and weaknesses, and work to amplify strengths and limit weaknesses in advance of going to market.

Most, if not all, of this information will eventually need to be provided to a buyer. By anticipating their ask, you can compile and present the information in a way that makes the best case for your company, making it more attractive and valuable to potential buyers. A buyer will still closely examine your information and test your assumptions, but you will be well prepared and ready to make your case.

Potential questions for management

Current strategy

Having a clear understanding of your business' current strategy will help you better understand your potential value in the market, identify potential strategic adjustments that need to be made before beginning your exit, and direct your marketing strategy once the decision to exit has been made. If you ultimately decide to sell or divest, it will also help identify where the greatest potential synergies in the market are found, which can help in developing a list of potential buyers.

- Who are the key stakeholders in the organization?
- What do key stakeholders want out of a potential exit?
- What is the company's current strategic direction?
- Are we delivering against objectives?
- When was the strategy most recently evaluated and/or updated?
- Have the proposed benefits of the strategy been realized or are they anticipated to materialize in the future?
  - If the benefits have yet to be realized, when are they anticipated?
- Is there an existing succession plan for key management roles?
- Is there an existing exit plan for those with significant ownership stakes?
- What strategic investments are necessary to enhance our value?

Market and industry conditions

When deciding on an exit, significant consideration must be given to the environment at the time of a planned exit. Economic conditions may affect a business' overall operation, finances, and impact the general M&A market. Industry conditions will impact all of the above, plus determine who may be in a position to buy, the type of deal financing available, the company's desirability to potential buyers, and the potential structure of a deal. Understanding the conditions in which you're making the decision to exit can help determine whether now is the right time to make a move or whether it would be better to wait until circumstances are more favourable.

Economic conditions

- How are current macroeconomic trends affecting the industry?
  - Are the trends anticipated to change and, if so, over what period?

Our company

- What is the ownership structure of the company?
- What is the management structure of the company?
  - Who are the top executives?
  - What is each business unit responsible for?
  - How do the business units interact with each other?

Position in industry

- What is our company's unique value proposition?
- Who are our key clients/customers?
  - Are there any long-term contracts/agreements with clients that could affect our value?
- Who are our key vendors?
  - Are there any long-term contracts/agreements with vendors that could affect our value?
- Where are we currently competing?
- Where are we potentially competitive?
- What are the primary forces of change in our industry and how do we match up against them?
- Who are our current primary competitors?
- How does our offering compare to our competitors?
- What are our primary competitors' strengths and weaknesses?
- How do our financial performance and key benchmarks match up against our competitors?

What are current M&A trends in our industry?

- Have there been any significant sales/mergers/public offerings in our industry recently?
  - If so, have the results been above/below expectations?
- Are current market conditions favorable for an exit, or would it be prudent to wait?

Operations

Finding operational efficiencies can be a core driver of synergies that will make the deal attractive to a potential buyer or investor. Providing a complete picture of the way that products and services are delivered will help underscore the value of the business and reveal possible improvements that can be undertaken before going to market. This can make the company more attractive and solicit a premium on the valuation.

- What are all the products and/or services we offer?
- Which products and/or services are the main drivers of revenue?
- How does the business produce its products and/or deliver its services?
- What is the condition of the equipment we use to deliver our products/services?
- Are there any weaknesses in our supply chain?
- What are our company's main operational inefficiencies and how could they be improved?
- What areas of the business could be improved/streamlined before going to market?

Financial information

Financial information helps to indicate the health of the organization and providing such information is a critical component of the due diligence process. The data provided by your organization will be thoroughly scrutinized by any potential buyer as they assess the value of the business. In collecting this information at an early stage, the board can head off potential issues down the line by identifying weaknesses in the data and introducing new processes to collect and compile this information. By pre-emptively improving its financial data, the company can remove or minimize potential roadblocks later in the process.

- What accounting framework is being used?
- What information is included in our financial statements?
- Do our financial statements present a complete and accurate financial picture that clearly demonstrate our value to an outsider?
- What information is not included in our financial statements that could help demonstrate additional value or will be required as part of a standard due diligence process?
- What steps are taken to verify the information in our financial statements and assure they're free of errors?
- What level of assurance is provided and by whom?
- What accounting policy choices have been made?
- How much debt is the company carrying?
- Are we running the business as efficiently as possible?
  - Are there opportunities to improve revenue/margins/profits?

Tax structure

An often overlooked component of planning to exit your business is tax structuring. Over the years, businesses may accumulate assets that a potential purchaser may not want as part of the final deal. As part of planning for a potential exit, you can move those assets into separate entities on a tax deferred basis, but that must happen *before* a transaction is in progress. If you wait until the deal is in progress, and the change in ownership would be considered part of the series of transactions, you can't operate on a tax deferred basis.

- Do we have the right structure in place to effectively manage the tax that will result from an exit?
- How are we optimizing our tax exposure?
  - Are there any opportunities to improve?
  - Are there any outstanding tax liabilities (e.g., delinquent filings, unpaid sales tax)?

Controls and risk management

A buyer or investor won't just be looking at the potential value they'd inherit with your business—they'll also be keenly aware of potential risks and want to understand how they're mitigated. Additionally, they'll want to understand the controls you have in place to ensure compliance with laws and regulations, and the accuracy of the information you collect. The bigger the risk, the larger a discount the buyer will seek as part of negotiations.

- What is our process for identifying and assessing risks to the organization?
- What is our process for assessing and ensuring adequate internal controls are in place to help mitigate risks to the business?
- Are our systems (e.g., enterprise resource planning, IT) sufficient to support our business processes?
  - If not, what investment would be required to make them sufficient?
- Are our systems (e.g., enterprise resource planning, IT) scalable to meet our potential needs in the future?
- Are our systems set up with the appropriate controls to help manage risks?
- Do we outsource any parts of our business?
  - If so, do we have a process to understand what controls our providers have in place to manage risks on behalf of the services they provide?

Assets

Having a clear understanding of the business' assets will help set expectations of what a potential offer from a buyer could look like. A reasonable and timely assessment of both tangible and intangible assets will also help to better identify the potential buyers that may be interested in your company or its potential valuation for a public offering. Having that information will also help key stakeholders determine whether now is the right time to begin exit proceedings.

- What is our company's intellectual property (IP)?
- What patents, copyrights, trademarks, and/or trade secrets do we own?
- How do we protect our IP?
  - How much revenue does each IP asset generate?
  - What potential legal liabilities does each IP asset pose to the business?
- What are our real estate assets?
- Do we have real estate deeds, leases, or mortgages?
- What inventory and equipment do we have on hand?
- Do we have an up-to-date customer list?

Culture and human capital

For many owners, the value of a company extends far beyond the balance sheet—the company's purpose, people, and culture can be as important to them as the sale price. Additionally, some buyers may value a smooth transition and want to understand how well your company may integrate with theirs. Conversely, major issues with employees or an intransigent management team can suppress interest and, ultimately, valuation.

- Do we have a professionalized management team able to meet the demands of the due diligence process?
- What are our employee satisfaction numbers?
- Where does our total compensation package rank against industry standards?
- How would the business retain key employees in the event of an exit?

Legal and regulatory

As with financial statements and information, legal matters will need to be disclosed at some point in the process. By identifying, assessing, and mitigating legal issues, you will be better prepared when these matters are brought up.

- What regulatory bodies oversee our operations/industry?
- What licences and permits are required to operate in each jurisdiction?
  - Are there any reasons why we may not receive those licences or permits in the future?
- What is our company's litigation history?
- What are some of the more significant potential legal liabilities for our company?

Identifying potential buyers

Identifying potential buyers/investors for your company or assets can help you better market the transaction. Successful promotion early in the process can increase valuation and make for an easier process.

- Which companies would benefit from revenue synergies if they acquired our company or assets?
- Which companies would gain strategic value from acquiring our company or assets?
- Are there potential buyers who align well with our corporate culture and have similar goals?
- How can we use our personal networks to find potential buyers and/or investors?

Next steps

The information collected in this exercise, once analyzed, should provide an overview of the current state of the business, and its general readiness for the exit process. Management, in consultation with the board of directors, should then develop a comprehensive exit strategy that includes a comparison of exit options, opportunities for improvement that could help make the business more attractive or solicit a higher valuation, and a plan for how the company will move through the next stages of exiting.

Exiting your business can be a long and complex process, but Grant Thornton can help—contact your local advisor or reach out to us here. You can also follow along with our series of guides on exiting your business. Our next guide will focus on how to approach valuation.

Contributors

Troy MacDonald
Partner, Transactions
T +1 416 369 6401
E Troy.Macdonald@ca.gt.com

Armando Minicucci
Partner, Tax Services
T +1 416 360 2374
E Armando.Minicucci@ca.gt.com

Trisha LeBlanc
Partner, Assurance Services
T +1 416 369 6424
E Trisha.LeBlanc@ca.gt.com

David Florio
Partner, Risk Services
T +1 416 369 6415
E David.Florio@ca.gt.com

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